

Preliminary Drafting Paragraphs for Proposed ISA 570 (Revised), *Going Concern* [MARK-UP FROM EXTANT]

Note for IAASB:

This Agenda Item includes preliminary drafting paragraphs (shown in mark-up from extant) prepared by the Going Concern Task Force (GC TF) for the issues discussed in **Agenda Item 5**. Based on the feedback from the Board in June 2022, the GC TF intends to further develop the preliminary drafting for proposed ISA 570 (Revised).

The text and paragraphs highlighted in grey are carried over from the extant ISA 570 (Revised)¹ with no modification.

Introduction

Scope of this ISA

1. This International Standard on Auditing (ISA) deals with the auditor's responsibilities in the audit of financial statements relating to going concern and the implications for the auditor's report. Although this ISA applies irrespective of the entity's size or complexity, particular considerations apply only for audits of financial statements of listed entities. (Ref: Para. A1)

Going Concern Basis of Accounting

2. Under the going concern basis of accounting, the financial statements are prepared on the assumption that the entity is a going concern and will continue its operations for the foreseeable future. General purpose financial statements are prepared using the going concern basis of accounting, unless management either intends to liquidate the entity or to cease operations, or has no realistic alternative but to do so. Special purpose financial statements may or may not be prepared in accordance with a financial reporting framework for which the going concern basis of accounting is relevant (e.g., the going concern basis of accounting is not relevant for some financial statements prepared on a tax basis in particular jurisdictions). When the use of the going concern basis of accounting is appropriate, assets and liabilities are recorded on the basis that the entity will be able to realize its assets and discharge its liabilities in the normal course of business. (Ref: Para. A2)

Responsibility for Assessment of the Entity's Ability to Continue as a Going Concern

3. Some financial reporting frameworks contain an explicit requirement for management to make a specific assessment of the entity's ability to continue as a going concern, and standards regarding matters to be considered and disclosures to be made in connection with going concern. For example, International Accounting Standard (IAS) 1 requires management to make an assessment of an entity's ability to continue as a going concern.² The detailed requirements regarding management's responsibility to assess the entity's ability to continue as a going concern and related financial statement disclosures may also be set out in law or regulation.

¹ See ISA 570 (Revised) as published in the IAASB 2020 Handbook (Volume I), including (when applicable) conforming and consequential amendments as a result of revision of other approved ISAs which are not yet effective, except for the illustrative auditor's report included in the Appendix to ISA 570 (Revised).

² IAS 1, *Presentation of Financial Statements*, paragraphs 25–26

4. In other financial reporting frameworks, there may be no explicit requirement for management to make a specific assessment of the entity's ability to continue as a going concern. Nevertheless, where the going concern basis of accounting is a fundamental principle in the preparation of financial statements as discussed in paragraph 2, the preparation of the financial statements requires management to assess the entity's ability to continue as a going concern even if the financial reporting framework does not include an explicit requirement to do so.
5. Management's assessment of the entity's ability to continue as a going concern involves making a judgment, at a particular point in time, about inherently uncertain future outcomes of events or conditions. The following factors are relevant to that judgment:
 - The degree of uncertainty associated with the outcome of an event or condition increases significantly the further into the future an event or condition or the outcome occurs. For that reason, most financial reporting frameworks that require an explicit management assessment specify the period for which management is required to take into account all available information.
 - The size and complexity of the entity, the nature and condition of its business and the degree to which it is affected by external factors affect the judgment regarding the outcome of events or conditions.
 - Any judgment about the future is based on information available at the time at which the judgment is made. Subsequent events may result in outcomes that are inconsistent with judgments that were reasonable at the time they were made.

Responsibilities of the Auditor

6. The auditor's responsibilities are to obtain sufficient appropriate audit evidence regarding, and conclude on, the appropriateness of management's use of the going concern basis of accounting in the preparation of the financial statements, and to conclude, based on the audit evidence obtained, whether a material uncertainty exists about the entity's ability to continue as a going concern. These responsibilities exist even if the financial reporting framework used in the preparation of the financial statements does not include an explicit requirement for management to make a specific assessment of the entity's ability to continue as a going concern.
7. However, as described in ISA 200,³ the potential effects of inherent limitations on the auditor's ability to detect material misstatements are greater for future events or conditions that may cause an entity to cease to continue as a going concern. The auditor cannot predict such future events or conditions. Accordingly, the absence of any reference to a material uncertainty about the entity's ability to continue as a going concern in an auditor's report cannot be viewed as a guarantee as to the entity's ability to continue as a going concern.

Effective Date

8. This ISA is effective for audits of financial statements for periods ending on or after December 15, 2016.

³ ISA 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing*, paragraphs A53–A54

Objectives

9. The objectives of the auditor are:
- (a) To obtain sufficient appropriate audit evidence regarding, and conclude on, the appropriateness of management's use of the going concern basis of accounting in the preparation of the financial statements;
 - (b) To conclude, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern; and
 - (c) To report in accordance with this ISA.

Requirements

Risk Assessment Procedures and Related Activities

10. When performing risk assessment procedures as required by ISA 315 (Revised),⁴ the auditor shall consider whether events or conditions exist that may cast significant doubt on the entity's ability to continue as a going concern. In so doing, the auditor shall determine whether management has already performed a preliminary assessment of the entity's ability to continue as a going concern, and: (Ref: Para. A3–A6)
- (a) If such an assessment has been performed, the auditor shall discuss the assessment with management and determine whether management has identified events or conditions that, individually or collectively, may cast significant doubt on the entity's ability to continue as a going concern and, if so, management's plans to address them; or
 - (b) If such an assessment has not yet been performed, the auditor shall discuss with management the basis for the intended use of the going concern basis of accounting, and inquire of management whether events or conditions exist that, individually or collectively, may cast significant doubt on the entity's ability to continue as a going concern.

11. The auditor shall remain alert throughout the audit for audit evidence of events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. (Ref: Para. A7)

Evaluating Management's Assessment

12. The auditor shall evaluate management's assessment of the entity's ability to continue as a going concern. (Ref: Para. A8–A10, A12–A13)

The Period of Management's Assessment

13. In evaluating management's assessment of the entity's ability to continue as a going concern, the auditor shall cover the same period as that used by management to make its assessment as required by the applicable financial reporting framework, or by law or regulation if it specifies a longer period. (Ref: Para. A11)

⁴ ISA 315 (Revised), *Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment*, paragraph 5

- 13A. If management’s assessment of the entity’s ability to continue as a going concern covers less than twelve months from the date of approval of the financial statements as defined in ISA 560,⁵ or when the applicable financial reporting framework does not specify the period to be covered by management’s assessment, the auditor shall request management to extend its assessment period to at least twelve months from that date. (Ref: Para. A11–A13)
14. In evaluating management’s assessment, the auditor shall consider whether management’s assessment includes all relevant information of which the auditor is aware as a result of the audit.

Management Unwilling to Make or Extend Its Assessment [Moved from Para. 24]

- 14A. If management is unwilling to make or extend its assessment when requested to do so by the auditor, the auditor shall:
- (a) Consider whether the period used by management to make its assessment is reasonable, based on the nature and circumstances of the entity. (Ref: Para. A13A)
 - (b) Discuss the matter with management, and if appropriate, with those charged with governance. (Ref: Para. A13B)
- 14B. If management is still unwilling to make or extend its assessment when requested in circumstances where the auditor believes it is necessary to do so by the auditor, the auditor shall consider determine the implications for the audit or for the auditor’s report opinion in accordance with ISA 705 (Revised).⁶ (Ref: Para. A13C)

Period beyond Management’s Assessment

15. The auditor shall inquire of management as to its knowledge of events or conditions beyond the period of management’s assessment that may cast significant doubt on the entity’s ability to continue as a going concern. (Ref: Para. A14–A15)

Additional Audit Procedures When Events or Conditions Are Identified

16. If events or conditions have been identified that may cast significant doubt on the entity’s ability to continue as a going concern, the auditor shall obtain sufficient appropriate audit evidence to determine whether or not a material uncertainty exists related to events or conditions that may cast significant doubt on the entity’s ability to continue as a going concern (hereinafter referred to as “material uncertainty”) through performing additional audit procedures, including consideration of mitigating factors. These procedures shall include: (Ref: Para. A16)
- (a) Where management has not yet performed an assessment of the entity’s ability to continue as a going concern, requesting management to make its assessment.
 - (b) Evaluating management’s plans for future actions in relation to its going concern assessment, whether the outcome of these plans is likely to improve the situation and whether management’s plans are feasible in the circumstances. (Ref: Para. A17)

⁵ ISA 560, *Subsequent Events*, paragraph 5(a)(b)

⁶ ISA 705 (Revised), *Modifications to the Opinion in the Independent Auditor’s Report*

- (c) Where the entity has prepared a cash flow forecast, and analysis of the forecast is a significant factor in considering the future outcome of events or conditions in the evaluation of management's plans for future actions: (Ref: Para. A18–A19)
 - (i) Evaluating the reliability of the underlying data generated to prepare the forecast; and
 - (ii) Determining whether there is adequate support for the assumptions underlying the forecast.
- (d) Considering whether any additional facts or information have become available since the date on which management made its assessment.
- (e) Requesting written representations from management and, where appropriate, those charged with governance, regarding their plans for future actions and the feasibility of these plans. (Ref: Para. A20)

Auditor Conclusions

- 17. The auditor shall evaluate whether sufficient appropriate audit evidence has been obtained regarding, and shall conclude on, the appropriateness of management's use of the going concern basis of accounting in the preparation of the financial statements.
- 18. Based on the audit evidence obtained, the auditor shall conclude whether, in the auditor's judgment, a material uncertainty exists related to events or conditions that, individually or collectively, may cast significant doubt on the entity's ability to continue as a going concern. A material uncertainty exists when the magnitude of its potential impact and likelihood of occurrence is such that, in the auditor's judgment, appropriate disclosure of the nature and implications of the uncertainty is necessary for: (Ref: Para. A21–A22)
 - (a) In the case of a fair presentation financial reporting framework, the fair presentation of the financial statements, or
 - (b) In the case of a compliance framework, the financial statements not to be misleading.

Adequacy of Disclosures When Events or Conditions Have Been Identified and a Material Uncertainty Exists

- 19. If the auditor concludes that management's use of the going concern basis of accounting is appropriate in the circumstances but a material uncertainty exists, the auditor shall determine whether the financial statements: (Ref: Para. A22–A23)
 - (a) Adequately disclose the principal events or conditions that may cast significant doubt on the entity's ability to continue as a going concern and management's plans to deal with these events or conditions; and
 - (b) Disclose clearly that there is a material uncertainty related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern and, therefore, that it may be unable to realize its assets and discharge its liabilities in the normal course of business.

Adequacy of Disclosures When Events or Conditions Have Been Identified but No Material Uncertainty Exists

20. If events or conditions have been identified that may cast significant doubt on the entity's ability to continue as a going concern but, based on the audit evidence obtained the auditor concludes that no material uncertainty exists, the auditor shall evaluate whether, in view of the requirements of the applicable financial reporting framework, the financial statements provide adequate disclosures about these events or conditions. (Ref: Para. A24–A25)

Implications for the Auditor's Report

Use of Going Concern Basis of Accounting Is Inappropriate

- ~~21. If the financial statements have been prepared using the going concern basis of accounting but, in the auditor's judgment, management's use of the going concern basis of accounting in the preparation of the financial statements is inappropriate, the auditor shall express an adverse opinion. (Ref: Para. A26–A27) [Moved to Para. 23A]~~

Use of Going Concern Basis of Accounting Is Appropriate – No Material Uncertainty Exists

- 21A. If the auditor concludes that the going concern basis of accounting is appropriate and no material uncertainty exists, the auditor shall include a separate section in the auditor's report with the heading "Going Concern", and state that as part of the audit of the financial statements, based on the audit evidence obtained, the auditor: (Ref: Para. A27A)
- (a) Concluded that management's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.
 - (b) Has not identified any material uncertainties related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern.

Events or Conditions Have Been Identified – No Material Uncertainty Exists

- 21B. For audits of financial statements of listed entities, if events or conditions have been identified that may cast significant doubt on the entity's ability to continue as a going concern but, based on the audit evidence obtained, the auditor concludes that no material uncertainty exists, the auditor shall in the "Going Concern" section of the auditor's report: (Ref: Para. A27B)
- (a) Draw attention to the note in the financial statements that discloses the matters set out in paragraph 20; and (Ref: Para. A27C)
 - (b) Describe how the auditor addressed the events or conditions that may cast significant doubt on the entity's ability to continue as a going concern in the audit. (Ref: Para. A27D–A27E)

Use of Going Concern Basis of Accounting Is Appropriate – ~~but a~~ A Material Uncertainty Exists

Adequate Disclosure of a Material Uncertainty Is Made in the Financial Statements

22. If adequate disclosure about the material uncertainty is made in the financial statements, the auditor shall express an unmodified opinion and the auditor's report shall include a separate section under the heading "Material Uncertainty Related to Going Concern" to: (Ref: Para. A28–A31, ~~A34~~)

- (a) Draw attention to the note in the financial statements that discloses the matters set out in paragraph 19; ~~and~~
- (b) State that these events or conditions indicate that a material uncertainty exists that may cast significant doubt on the entity's ability to continue as a going concern and that the auditor's opinion is not modified in respect of the matter;~~;~~
- (c) State that as part of the audit of the financial statements, based on the audit evidence obtained the auditor concluded that management's use of the going concern assumption in the preparation of the financial statements is appropriate; and
- (d) For audits of financial statements of listed entities, describe how the auditor addressed the events or conditions that may cast significant doubt on the entity's ability to continue as a going concern in the audit. (Ref: Para. A27D–A27E)

Adequate Disclosure of a Material Uncertainty Is Not Made in the Financial Statements

23. If adequate disclosure about the material uncertainty is not made in the financial statements, the auditor shall: (Ref: Para. A32–A334)
- (a) Express a qualified opinion or adverse opinion, as appropriate, in accordance with ISA 705 (Revised)⁷; and
 - (b) In the Basis for Qualified (Adverse) Opinion section of the auditor's report, state that a material uncertainty exists that may cast significant doubt on the entity's ability to continue as a going concern and that the financial statements do not adequately disclose this matter.

Use of Going Concern Basis of Accounting Is Inappropriate [Moved from Para. 21]

- 23A. If the financial statements have been prepared using the going concern basis of accounting but, in the auditor's judgment, management's use of the going concern basis of accounting in the preparation of the financial statements is inappropriate, the auditor shall express an adverse opinion. (Ref: Para. A26–A27A33A–A33B)

Management Unwilling to Make or Extend Its Assessment [Moved to Para. 14A/14B]

- ~~24. If management is unwilling to make or extend its assessment when requested to do so by the auditor, the auditor shall consider the implications for the auditor's report. (Ref: Para. A35)~~

Communication with Those Charged with Governance

25. Unless all those charged with governance are involved in managing the entity,⁸ the auditor shall communicate with those charged with governance events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern. Such communication with those charged with governance shall include the following: (Ref: Para. A36A–A36C)
- (a) Whether the events or conditions constitute a material uncertainty;

⁷ ISA 705 (Revised), *Modifications to the Opinion in the Independent Auditor's Report*

⁸ ISA 260 (Revised), *Communication with Those Charged with Governance*, paragraph 13

- (b) Whether management's use of the going concern basis of accounting is appropriate in the preparation of the financial statements;
- (c) An overview of the audit procedures performed and the basis for the auditor's conclusions, including the consideration of management's plans for future actions;
- (d) The adequacy of related disclosures in the financial statements, including disclosures that describe mitigating factors in management's plans that are of significance to overcoming the adverse effects of the events or conditions; and
- (e) Where applicable, management's unwillingness to make or extend its assessment of the entity's ability to continue as a going concern when requested; and
- (f) Where applicable, the implications for the audit or the auditor's report.

Reporting to an Appropriate Authority Outside of the Entity

25A. When the auditor considers it necessary to include a "Material Uncertainty Related to Going Concern" paragraph in the auditor's report, or issue a qualified, adverse or disclaimer of opinion in respect of matters related to going concern, the auditor shall determine whether law, regulation or relevant ethical requirements: (Ref: Para. A37A–A37D)

- (a) Require the auditor to report to an appropriate authority outside the entity.
- (b) Establish responsibilities under which reporting to an appropriate authority outside the entity may be appropriate in the circumstances.

Significant Delay in the Approval of Financial Statements

26. If there is significant delay in the approval of the financial statements by management or those charged with governance after the date of the financial statements, the auditor shall inquire as to the reasons for the delay. If the auditor believes that the delay could be related to events or conditions relating to the going concern assessment, the auditor shall perform those additional audit procedures necessary, as described in paragraph 16, as well as consider the effect on the auditor's conclusion regarding the existence of a material uncertainty, as described in paragraph 18.

Application and Other Explanatory Material

Scope of this ISA (Ref: Para 1)

A1. ISA 701⁹ deals with the auditor's responsibility to communicate key audit matters in the auditor's report. That ISA acknowledges that, when ISA 701 applies, ~~matters relating to going concern may be determined to be key audit matters, and explains that~~ a material uncertainty related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern is, by its nature, a key audit matter.¹⁰ However, in such circumstances, the implications for the auditor report are in accordance with this ISA.

⁹ ISA 701, *Communicating Key Audit Matters in the Independent Auditor's Report*

¹⁰ See paragraphs 15 and A44 of ISA 701.

Going Concern Basis of Accounting (Ref: Para. 2)

Considerations Specific to Public Sector Entities

A2. Management's use of the going concern basis of accounting is also relevant to public sector entities. For example, International Public Sector Accounting Standard (IPSAS) 1 addresses the issue of the ability of public sector entities to continue as going concerns.¹¹ Going concern risks may arise, but are not limited to, situations where public sector entities operate on a for-profit basis, where government support may be reduced or withdrawn, or in the case of privatization. Events or conditions that may cast significant doubt on an entity's ability to continue as a going concern in the public sector may include situations where the public sector entity lacks funding for its continued existence or when policy decisions are made that affect the services provided by the public sector entity.

Risk Assessment Procedures and Related Activities

Events or Conditions That May Cast Significant Doubt on the Entity's Ability to Continue as a Going Concern (Ref: Para. 10)

A3. The following are examples of events or conditions that, individually or collectively, may cast significant doubt on the entity's ability to continue as a going concern. This listing is not all-inclusive nor does the existence of one or more of the items always signify that a material uncertainty exists.

Financial

- Net liability or net current liability position.
- Fixed-term borrowings approaching maturity without realistic prospects of renewal or repayment; or excessive reliance on short-term borrowings to finance long-term assets.
- Indications of withdrawal of financial support by creditors.
- Negative operating cash flows indicated by historical or prospective financial statements.
- Adverse key financial ratios.
- Substantial operating losses or significant deterioration in the value of assets used to generate cash flows.
- Arrears or discontinuance of dividends.
- Inability to pay creditors on due dates.
- Inability to comply with the terms of loan agreements.
- Change from credit to cash-on-delivery transactions with suppliers.
- Inability to obtain financing for essential new product development or other essential investments.

Operating

- Management intentions to liquidate the entity or to cease operations.
- Loss of key management without replacement.

¹¹ IPSAS 1, *Presentation of Financial Statements*, paragraphs 38–41

- Loss of a major market, key customer(s), franchise, license, or principal supplier(s).
- Labor difficulties.
- Shortages of important supplies.
- Emergence of a highly successful competitor.

Other

- Non-compliance with capital or other statutory or regulatory requirements, such as solvency or liquidity requirements for financial institutions.
- Pending legal or regulatory proceedings against the entity that may, if successful, result in claims that the entity is unlikely to be able to satisfy.
- Changes in law or regulation or government policy expected to adversely affect the entity.
- Uninsured or underinsured catastrophes when they occur.

The significance of such events or conditions often can be mitigated by other factors. For example, the effect of an entity being unable to make its normal debt repayments may be counterbalanced by management's plans to maintain adequate cash flows by alternative means, such as by disposing of assets, rescheduling loan repayments, or obtaining additional capital. Similarly, the loss of a principal supplier may be mitigated by the availability of a suitable alternative source of supply.

A4. The risk assessment procedures required by paragraph 10 help the auditor to determine whether management's use of the going concern basis of accounting is likely to be an important issue and its impact on planning the audit. These procedures also allow for more timely discussions with management, including a discussion of management's plans and resolution of any identified going concern issues.

Considerations Specific to Smaller Entities (Ref: Para. 10)

- A5. The size of an entity may affect its ability to withstand adverse conditions. Small entities may be able to respond quickly to exploit opportunities, but may lack reserves to sustain operations.
- A6. Conditions of particular relevance to small entities include the risk that banks and other lenders may cease to support the entity, as well as the possible loss of a principal supplier, major customer, key employee, or the right to operate under a license, franchise or other legal agreement.

Remaining Alert throughout the Audit for Audit Evidence about Events or Conditions (Ref: Para. 11)

A7. ISA 315 (Revised) requires the auditor to revise the auditor's risk assessment and modify the further planned audit procedures accordingly when additional audit evidence is obtained during the course of the audit that affects the auditor's assessment of risk.¹² If events or conditions that may cast significant doubt on the entity's ability to continue as a going concern are identified after the auditor's risk assessments are made, in addition to performing the procedures in paragraph 16, the auditor's assessment of the risks of material misstatement may need to be revised. The existence of such events or conditions may also affect the nature, timing and extent of the auditor's further procedures

¹² ISA 315 (Revised), paragraph 31

in response to the assessed risks. ISA 330¹³ establishes requirements and provides guidance on this issue.

Evaluating Management's Assessment

Management's Assessment and Supporting Analysis and the Auditor's Evaluation (Ref: Para. 12)

- A8. Management's assessment of the entity's ability to continue as a going concern is a key part of the auditor's consideration of management's use of the going concern basis of accounting.
- A9. It is not the auditor's responsibility to rectify the lack of analysis by management. In some circumstances, however, the lack of detailed analysis by management to support its assessment may not prevent the auditor from concluding whether management's use of the going concern basis of accounting is appropriate in the circumstances. For example, when there is a history of profitable operations and a ready access to financial resources, management may make its assessment without detailed analysis. In this case, the auditor's evaluation of the appropriateness of management's assessment may be made without performing detailed evaluation procedures if the auditor's other audit procedures are sufficient to enable the auditor to conclude whether management's use of the going concern basis of accounting in the preparation of the financial statements is appropriate in the circumstances.
- A10. In other circumstances, evaluating management's assessment of the entity's ability to continue as a going concern, as required by paragraph 12, may include an evaluation of the process management followed to make its assessment, the assumptions on which the assessment is based and management's plans for future action and whether management's plans are feasible in the circumstances.

The Period of Management's Assessment (Ref: Para. 13–13A)

- A11. Most financial reporting frameworks requiring an explicit management assessment specify the minimum period for which management is required to take into account all available information.¹⁴

Considerations Specific to Smaller Entities (Ref: Para. 12–13A)

- A12. In many cases, the management of smaller entities may not have prepared a detailed assessment of the entity's ability to continue as a going concern, but instead may rely on in-depth knowledge of the business and anticipated future prospects. Nevertheless, in accordance with the requirements of this ISA, the auditor needs to evaluate management's assessment of the entity's ability to continue as a going concern. For smaller entities, it may be appropriate to discuss the medium and long-term financing of the entity with management, provided that management's contentions can be corroborated by sufficient documentary evidence and are not inconsistent with the auditor's understanding of the entity. Therefore, the requirement in paragraph 13A for the auditor to request management to extend its assessment may, for example, be satisfied by discussion, inquiry and inspection of supporting documentation, for example, orders received for future supply, evaluated as to their feasibility or otherwise substantiated.

¹³ ISA 330, *The Auditor's Responses to Assessed Risks*

¹⁴ For example, IAS 1 defines this as a period that should be at least, but is not limited to, twelve months from the end of the reporting period and IPSAS 1 defines this as a period that should be at least, but is not limited to, twelve months from the approval of the financial statements.

A13. Continued support by owner-managers is often important to smaller entity's ability to continue as a going concern. Where a small entity is largely financed by a loan from the owner-manager, it may be important that these funds are not withdrawn. For example, the continuance of a small entity in financial difficulty may be dependent on the owner-manager subordinating a loan to the entity in favor of banks or other creditors, or the owner-manager supporting a loan for the entity by providing a guarantee with his or her personal assets as collateral. In such circumstances, the auditor may obtain appropriate documentary evidence of the subordination of the owner-manager's loan or of the guarantee. Where an entity is dependent on additional support from the owner-manager, the auditor may evaluate the owner-manager's ability to meet the obligation under the support arrangement. In addition, the auditor may request written confirmation of the terms and conditions attaching to such support and the owner-manager's intention or understanding.

Management Unwilling to Make or Extend Its Assessment (Ref: Para.24 14A–14B) [Moved from Para. A35]

A13A. Paragraph 13A requires the auditor to request management to extend its assessment period if that period covers less than twelve months from the date of the approval of the financial statements. In certain circumstances management may be able to provide additional information to support the appropriateness of the period chosen by management based on the nature and circumstances of the entity. For example, management may have chosen an assessment period of twelve months from the date of the financial statements because the entity has a history of profitable operations and no liquidity concerns and it is unlikely that there will be a significant delay between the date of the financial statements and the date of approval of the financial statements and on that basis management has concluded that it is not necessary to extend the period of assessment.

A13B. An unwillingness by management to make or extend its assessment may be a limitation on the audit evidence the auditor is seeking to obtain. Accordingly, the auditor is required to discuss the matter with management or, when appropriate with those charged with governance, and inquire as to the reasons for management's decision. Management and those charged with governance may also be able to provide additional information to support the appropriateness of management's use of the going concern basis of accounting in the preparation of the financial statements.

A13C. In certain circumstances, the auditor may believe it necessary to request management to make or extend its assessment. If management is unwilling to do so, the auditor is unable to obtain sufficient appropriate audit evidence that supports management's decision not to make or extend its assessment, the auditor may conclude that it would be appropriate to:

- Revise the assessment of the risks of material misstatement and modify planned audit procedures in accordance with ISA 315 (Revised 2019).¹⁵ For example, if management's decision is unreasonable in the circumstances, this may indicate a fraud risk factor that requires evaluation in accordance with ISA 240.¹⁶
- Consider management's unwillingness to make or extend its assessment as a limitation on the audit evidence the auditor has obtained because ~~in such circumstances a qualified opinion or a disclaimer of opinion in the auditor's report may be appropriate, because~~ it may not be possible for the auditor to obtain sufficient appropriate audit evidence regarding management's

¹⁵ ISA 315 (Revised 2019), *Identifying and Assessing the Risks of Material Misstatement*

¹⁶ ISA 240, *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements*

use of the going concern basis of accounting in the preparation of the financial statements, such as audit evidence regarding the existence of plans management has put in place or the existence of other mitigating factors. In accordance with ISA 705 (Revised), where the auditor is unable to obtain sufficient appropriate audit evidence to conclude that the financial statements as a whole are free from material misstatement, the auditor expresses a qualified opinion or disclaims an opinion.

Period beyond Management's Assessment (Ref: Para. 15)

A14. As required by paragraph 11, the auditor remains alert to the possibility that there may be known events, scheduled or otherwise, or conditions that will occur beyond the period of assessment used by management that may bring into question the appropriateness of management's use of the going concern basis of accounting in preparing the financial statements. Since the degree of uncertainty associated with the outcome of an event or condition increases as the event or condition is further into the future, in considering events or conditions further in the future, the indications of going concern issues need to be significant before the auditor needs to consider taking further action. If such events or conditions are identified, the auditor may need to request management to evaluate the potential significance of the event or condition on its assessment of the entity's ability to continue as a going concern. In these circumstances, the procedures in paragraph 16 apply.

A15. Other than inquiry of management, the auditor does not have a responsibility to perform any other audit procedures to identify events or conditions that may cast significant doubt on the entity's ability to continue as a going concern beyond the period assessed by management, which, as discussed in paragraph 13, would be at least twelve months from the date of approval of the financial statements.

Additional Audit Procedures When Events or Conditions Are Identified (Ref: Para.16)

A16. Audit procedures that are relevant to the requirement in paragraph 16 may include the following:

- Analyzing and discussing cash flow, profit and other relevant forecasts with management.
- Analyzing and discussing the entity's latest available interim financial statements.
- Reading the terms of debentures and loan agreements and determining whether any have been breached.
- Reading minutes of the meetings of shareholders, those charged with governance and relevant committees for reference to financing difficulties.
- Inquiring of the entity's legal counsel regarding the existence of litigation and claims and the reasonableness of management's assessments of their outcome and the estimate of their financial implications.
- Confirming the existence, legality and enforceability of arrangements to provide or maintain financial support with related and third parties and assessing the financial ability of such parties to provide additional funds.
- Evaluating the entity's plans to deal with unfilled customer orders.
- Performing audit procedures regarding subsequent events to identify those that either mitigate or otherwise affect the entity's ability to continue as a going concern.

- Confirming the existence, terms and adequacy of borrowing facilities.
- Obtaining and reviewing reports of regulatory actions.
- Determining the adequacy of support for any planned disposals of assets.

Evaluating Management's Plans for Future Actions (Ref: Para. 16(b))

A17. Evaluating management's plans for future actions may include inquiries of management as to its plans for future action, including, for example, its plans to liquidate assets, borrow money or restructure debt, reduce or delay expenditures, or increase capital.

The Period of Management's Assessment (Ref: Para. 16(c))

A18. In addition to the procedures required in paragraph 16(c), the auditor may compare:

- The prospective financial information for recent prior periods with historical results; and
- The prospective financial information for the current period with results achieved to date.

A19. Where management's assumptions include continued support by third parties, whether through the subordination of loans, commitments to maintain or provide additional funding, or guarantees, and such support is important to an entity's ability to continue as a going concern, the auditor may need to consider requesting written confirmation (including of terms and conditions) from those third parties and to obtain evidence of their ability to provide such support.

Written Representations (Ref: Para. 16(e))

A20. The auditor may consider it appropriate to obtain specific written representations beyond those required in paragraph 16 in support of audit evidence obtained regarding management's plans for future actions in relation to its going concern assessment and the feasibility of those plans.

Auditor Conclusions

Material Uncertainty Related to Events or Conditions that May Cast Significant Doubt on the Entity's Ability to Continue as a Going Concern (Ref: Para. 18)

A21. The phrase "material uncertainty" is used in IAS 1 in discussing the uncertainties related to events or conditions which may cast significant doubt on the entity's ability to continue as a going concern that should be disclosed in the financial statements. In some other financial reporting frameworks the phrase "significant uncertainty" is used in similar circumstances.

Adequacy of Disclosure when Events or Conditions Have Been Identified and a Material Uncertainty Exists

A22. Paragraph 18 explains that a material uncertainty exists when the magnitude of the potential impact of the events or conditions and the likelihood of occurrence is such that appropriate disclosure is necessary to achieve fair presentation (for fair presentation frameworks) or for the financial statements not to be misleading (for compliance frameworks). The auditor is required by paragraph 18 to conclude whether such a material uncertainty exists regardless of whether or how the applicable financial reporting framework defines a material uncertainty.

A23. Paragraph 19 requires the auditor to determine whether the financial statement disclosures address

the matters set forth in that paragraph. This determination is in addition to the auditor determining whether disclosures about a material uncertainty, required by the applicable financial reporting framework, are adequate. Disclosures required by some financial reporting frameworks that are in addition to matters set forth in paragraph 19 may include disclosures about:

- Management's evaluation of the significance of the events or conditions relating to the entity's ability to meet its obligations; or
- Significant judgments made by management as part of its assessment of the entity's ability to continue as a going concern.

Some financial reporting frameworks may provide additional guidance regarding management's consideration of disclosures about the magnitude of the potential impact of the principal events or conditions, and the likelihood and timing of their occurrence.

Adequacy of Disclosures When Events or Conditions Have Been Identified but No Material Uncertainty Exists
(Ref: Para. 20)

A24. Even when no material uncertainty exists, paragraph 20 requires the auditor to evaluate whether, in view of the requirements of the applicable financial reporting framework, the financial statements provide adequate disclosure about events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. Some financial reporting frameworks may address disclosures about:

- Principal events or conditions;
- Management's evaluation of the significance of those events or conditions in relation to the entity's ability to meet its obligations;
- Management's plans that mitigate the effect of these events or conditions; or
- Significant judgments made by management as part of its assessment of the entity's ability to continue as a going concern; or
- The assumptions management makes about the future, and other sources of estimation uncertainty.

A25. When the financial statements are prepared in accordance with a fair presentation framework, the auditor's evaluation as to whether the financial statements achieve fair presentation includes the consideration of the overall presentation, structure and content of the financial statements, and whether the financial statements, including the related notes, represent the underlying transactions and events in a manner that achieves fair presentation.¹⁷ Depending on the facts and circumstances, the auditor may determine that additional disclosures are necessary to achieve fair presentation. This may be the case, for example, when events or conditions have been identified that may cast significant doubt on the entity's ability to continue as a going concern but, based on the audit evidence obtained, the auditor concludes that no material uncertainty exists, and no disclosures are explicitly required by the applicable financial reporting framework regarding these circumstances.

¹⁷ ISA 700 (Revised), *Forming an Opinion and Reporting on Financial Statements*, paragraph 14

Implications for the Auditor's Report

Use of Going Concern Basis of Accounting is Inappropriate (Ref: Para. 24) [Moved to Para. A33A–A33B]

~~A26. If the financial statements have been prepared using the going concern basis of accounting but, in the auditor's judgment, management's use of the going concern basis of accounting in the financial statements is inappropriate, the requirement in paragraph 21 for the auditor to express an adverse opinion applies regardless of whether or not the financial statements include disclosure of the inappropriateness of management's use of the going concern basis of accounting.~~

~~A27. When the use of the going concern basis of accounting is not appropriate in the circumstances, management may be required, or may elect, to prepare the financial statements on another basis (e.g., liquidation basis). The auditor may be able to perform an audit of those financial statements provided that the auditor determines that the other basis of accounting is acceptable in the circumstances. The auditor may be able to express an unmodified opinion on those financial statements, provided there is adequate disclosure therein about the basis of accounting on which the financial statements are prepared, but may consider it appropriate or necessary to include an Emphasis of Matter paragraph in accordance with ISA 706 (Revised)⁴⁸ in the auditor's report to draw the user's attention to that alternative basis of accounting and the reasons for its use.~~

Use of Going Concern Basis of Accounting Is Appropriate – No Material Uncertainty Exists (Ref: Para. 21A)

A27A. Law or regulation may require the auditor to provide additional information that would supplement the statements required by paragraph 21A. For example to provide a reference to the relevant accounting policies or the notes in the financial statements, if appropriate. When the statements required by paragraph 21A are supplemented, such information is provided it in the Going Concern section of the auditor's report.

Events or Conditions Have Been Identified – No Material Uncertainty Exists (Ref: Para. 21B)

A27B. For an audit of financial statements of an entity other than a listed entity, law or regulation may require the auditor to provide the statements required by paragraph 21B. The auditor also may decide that providing the statements required by paragraph 21B would be appropriate to enhance transparency for intended users of financial statements in the auditor's report. For example, the auditor may consider it appropriate to do so when intended users of financial statements rely on the audited financial statements to make economic decisions or because the entity may be of significant public interest, for example, because they have a large number and wide range of stakeholders and considering the nature and size of the business. Examples of such entities may include financial institutions (such as banks, insurance companies, and pension funds), and other entities such as charities.

A27C. There may be circumstances when in the auditor's judgement, the disclosures of management's judgements relating to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern are fundamental to the intended users' understanding of the financial statements. Also, there may be circumstances when the auditor, in addition to drawing attention to the note in the financial statements that discloses the matters set out in paragraph 20, would consider

⁴⁸ ISA 706 (Revised), *Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report*

it appropriate to draw attention to key aspects of them. In such circumstances, the statements required by paragraph 21B can be supplemented to include aspects of the identified events or conditions disclosed in the financial statements, such as substantial operating losses, available borrowing facilities and possible debt refinancing, or non-compliance with loan agreements, and related mitigating factors or to draw attention to aspects of the disclosures of management's judgements. When the statements required by paragraph 21B are supplemented, such information is provided in the Going Concern section of the auditor's report.

Description of How the Auditor Addressed the Events or Conditions in the Audit (Ref: Para. 21B(b), 22(d))

A27D. The amount of detail to be provided in the auditor's report to describe how the auditor addressed the events or conditions that may cast significant doubt on the entity's ability to continue as a going concern in the audit is a matter of professional judgment. The auditor may describe:

- Aspects of the auditor's response or approach that were most relevant to the events or conditions that may cast significant doubt on the entity's ability to continue as a going concern;
- A brief overview of procedures performed;
- An indication of the outcome of the auditor's procedures; or
- Key observations with respect to the events or conditions that may cast significant doubt on the entity's ability to continue as a going concern.

or some combination of these elements.

A27E. In order for intended users to understand the significance of the description in the context of the audit of the financial statements as a whole, care may be necessary so that language used in the description of how the auditor addressed the events or conditions that may cast significant doubt on the entity's ability to continue as a going concern:

- Relates the description directly to the specific circumstances of the entity, while avoiding generic or standardized language.
- Takes into account how the events or conditions that may cast significant doubt on the entity's ability to continue as a going concern are addressed in the related disclosure(s) in the financial statements.
- Does not contain or imply discrete opinions on separate elements of the financial statements.
- When applicable, does not obscure that a material uncertainty exists.

Use of the Going Concern Basis of Accounting Is Appropriate – ~~but a~~ A Material Uncertainty Exists (Ref: Para. 22–23)

A28. The identification of a material uncertainty is a matter that is important to intended users' understanding of the financial statements. The use of a separate section with a heading that includes reference to the fact that a material uncertainty related to going concern exists alerts users to this circumstance.

A29. The Appendix to this ISA provides illustrations of the statements that are required to be included in the auditor's report on the financial statements when International Financial Reporting Standards (IFRSs) is the applicable financial reporting framework. If an applicable financial reporting framework

other than IFRSs is used, the illustrative statements presented in the Appendix to this ISA may need to be adapted to reflect the application of the other financial reporting framework in the circumstances.

~~A30. Paragraph 22 establishes the minimum information required to be presented in the auditor's report in each of the circumstances described. The auditor may provide additional information to supplement the required statements, for example to explain:~~

- ~~• That the existence of a material uncertainty is fundamental to users' understanding of the financial statements;¹⁹ or~~
- ~~• How the matter was addressed in the audit (see also paragraph A4). [Removed]~~

Adequate Disclosure of a Material Uncertainty Is Made in the Financial Statements (Ref: Para. 22)

A31. Illustration 1 of the Appendix to this ISA is an example of an auditor's report when the auditor has obtained sufficient appropriate audit evidence regarding the appropriateness of management's use of the going concern basis of accounting but a material uncertainty exists and disclosure is adequate in the financial statements. The Appendix of ISA 700 (Revised) also includes illustrative wording to be included in the auditor's report for all entities in relation to going concern to describe the respective responsibilities of those responsible for the financial statements and the auditor in relation to going concern.

Adequate Disclosure of a Material Uncertainty Is Not Made in the Financial Statements (Ref: Para. 23)

A32. Illustrations 2 and 3 of the Appendix to this ISA are examples of auditor's reports containing qualified and adverse opinions, respectively, when the auditor has obtained sufficient appropriate audit evidence regarding the appropriateness of the management's use of the going concern basis of accounting but adequate disclosure of a material uncertainty is not made in the financial statements.

A33. In situations involving multiple uncertainties that are significant to the financial statements as a whole, the auditor may consider it appropriate in extremely rare cases to express a disclaimer of opinion instead of including the statements required by paragraph 22. ISA 705 (Revised) provides guidance on this issue.²⁰

Use of Going Concern Basis of Accounting is Inappropriate (Ref: Para. 23A4) [Moved from Para. A26–A27]

~~A33A. If the financial statements have been prepared using the going concern basis of accounting but, in the auditor's judgment, management's use of the going concern basis of accounting in the financial statements is inappropriate, the requirement in paragraph 23A4 for the auditor to express an adverse opinion applies regardless of whether or not the financial statements include disclosure of the inappropriateness of management's use of the going concern basis of accounting.~~

~~A33B. When the use of the going concern basis of accounting is not appropriate in the circumstances, management may be required, or may elect, to prepare the financial statements on another basis (e.g., liquidation basis). The auditor may be able to perform an audit of those financial statements provided that the auditor determines that the other basis of accounting is acceptable in the circumstances. The auditor may be able to express an unmodified opinion on those financial~~

¹⁹ ISA 706 (Revised), paragraph A2

²⁰ ISA 705 (Revised), paragraph 10

statements, provided there is adequate disclosure therein about the basis of accounting on which the financial statements are prepared, but may consider it appropriate or necessary to include an Emphasis of Matter paragraph in accordance with ISA 706 (Revised)²¹ in the auditor's report to draw the user's attention to that alternative basis of accounting and the reasons for its use.

Communication with Regulators (Ref: Para. 22–23)

~~A34. When the auditor of a regulated entity considers that it may be necessary to include a reference to going concern matters in the auditor's report, the auditor may have a duty to communicate with the applicable regulatory, enforcement or supervisory authorities. [Moved to Para. A37A]~~

Management Unwilling to Make or Extend Its Assessment (Ref: Para. 24)

~~A35. In certain circumstances, the auditor may believe it necessary to request management to make or extend its assessment. If management is unwilling to do so, a qualified opinion or a disclaimer of opinion in the auditor's report may be appropriate, because it may not be possible for the auditor to obtain sufficient appropriate audit evidence regarding management's use of the going concern basis of accounting in the preparation of the financial statements, such as audit evidence regarding the existence of plans management has put in place or the existence of other mitigating factors. [Moved to para A13A–A13C]~~

Communication with Those Charged with Governance (Ref: Para. 25)

A36A. ISA 260 (Revised)²² explains that timely communication throughout the audit contributes to the achievement of robust two-way dialogue between those charged with governance and the auditor. However, the appropriate timing for communications will vary with the circumstances of the engagement, including the significance and nature of the matter, and the action expected to be taken by those charged with governance. For example, when events or conditions have been identified that may cast significant doubt on the entity's ability to continue as a going concern, prompt communication with those charged with governance provides them with an opportunity to provide further clarification where necessary and also enables them to consider whether new or enhanced disclosures may be necessary (e.g., in relation to the mitigating factors in management's plans that are of significance to overcoming the adverse effects of the events or conditions).

A36B. Communication with those charged with governance about the audit procedures performed provides an opportunity for those charged with governance to understand the auditor's work that forms the basis for the auditor's conclusion, and where applicable, the implications for the auditor's report.

A36C. ISA 265,²³ requires the auditor to communicate with management and those charged with governance any significant deficiencies in internal control identified during the audit. For example, if the auditor identified events or conditions that may cast significant doubt on the entity's ability to continue as a going concern that management failed to identify or disclose to the auditor, the auditor may determine that there is a significant deficiency in internal control with regard to the entity's risk assessment processes.

²¹ ISA 706 (Revised), *Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report*

²² ISA 260 (Revised), paragraph A49

²³ ISA 265, *Communicating Deficiencies in Internal Control to Management and Those Charged With Governance*, paragraph 9

Reporting to an Appropriate Authority Outside of the Entity (Ref: Para. 25A)

A37A. When the auditor of a regulated entity considers that it may be necessary to include a “Material Uncertainty Related to Going Concern” paragraph in the auditor’s report, or issues a qualified, adverse or disclaimer of opinion in respect of reference to going concern matters in the auditor’s report, the auditor may have a duty be required by law, regulation or relevant ethical requirements to communicate these matters. The reporting may be to with applicable regulatory, enforcement, or supervisory authorities or other appropriate authority outside of the entity. For example, in some jurisdictions, statutory requirements exist for the auditor of a public interest entity to report to a supervisory authority when a material uncertainty exists related to events or conditions that may cast significant doubt to continue as a going concern. [Moved from Para. A34]

A37B. If law, regulation or relevant ethical requirements do not include requirements to report to an appropriate authority outside the entity when the auditor includes a “Material Uncertainty Related to Going Concern” paragraph in the auditor’s report or issues a qualified, adverse or disclaimer of opinion in respect of matters related to going concern, the auditor may consider whether it is appropriate to report the matter in the public interest to an appropriate authority outside the entity, unless precluded by the auditor’s duty of confidentiality under law, regulation or relevant ethical requirements.²⁴ For example, when auditing the financial statements of financial institutions, the auditor may have the right under law or regulation to discuss with a supervisory authority when a material uncertainty exists related to events or conditions that may cast significant doubt on the entity’s ability to continue as a going concern. In such circumstances, the auditor may also decide to discuss the matter with those charged with governance.

A37C. Factors the auditor may consider in determining whether it is appropriate to report the matter in the public interest to an appropriate authority outside the entity, may include:

- Any views expressed by the regulatory, enforcement, supervisory or other appropriate authority outside of the entity.
- Any legal advice obtained by those charged with governance.
- The actual and planned actions taken to address or mitigate the situation.

A37D. Reporting going concern matters to an appropriate authority outside of the entity may involve complex considerations and professional judgments. In those circumstances, the auditor may consider consulting internally (e.g., within the firm or a network firm) or on a confidential basis with a regulator or professional body (unless doing so is prohibited by law or regulation or would breach the duty of confidentiality). The auditor may also consider obtaining legal advice to understand the auditor’s options and the professional or legal implications of taking any particular course of action.

²⁴ For example, Section 114 of the *International Ethics Standards Board for Accountants’ International Code of Ethics for Professional Accountants (including International Independence Standards)* (IESBA Code) sets out requirements to comply with the principle of confidentiality.